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25 May 1965

MEMORANDUM

SUBJECT: Sino-Soviet Trade Continues Despite
Political Differences

1. Although political relations between Peiping and Moscow have deteriorated sharply, particularly since 1960 when Soviet economic and military assistance to China was drastically reduced, trade between the two countries has continued. The volume of such trade has, however, dropped steadily since 1959.

2. Trade relations have been maintained for several economic and political reasons. Peiping has long been determined to repay its debt to the USSR before it fell due in order to demonstrate Chinese independence and self-reliance and to enhance China's prestige. To this end, the Chinese have maintained a heavy annual export surplus to the USSR which enabled them to repay in full their outstanding long-term debt by early 1965.

3. Both Peiping and Moscow see economic advantages in maintaining limited trade in certain commodities. In addition, both have, over recent years, considered it desirable to maintain contacts on various levels



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in order to preserve some semblance of normalcy in their state relations even though party relations have soured. Hence, although formal and informal contacts have lessened, trade as well as other programs, including student and cultural exchanges, have continued.

4. Sino-Soviet trade reached a peak of \$2 billion in 1959 but the steady decline brought it to less than \$500 million in 1964. Reports on the recently concluded pact for 1965 suggest a further drop.

5. Peiping's imports this year reportedly will not include complete industrial plants, and the TASS announcement of the pact did not mention further sales of petroleum, which accounted for a substantial portion of the Soviet deliveries last year. Moreover, the volume of China's exports may be much smaller this year since Peiping no longer needs to maintain a large surplus in its trade with the USSR to repay its debts.

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